

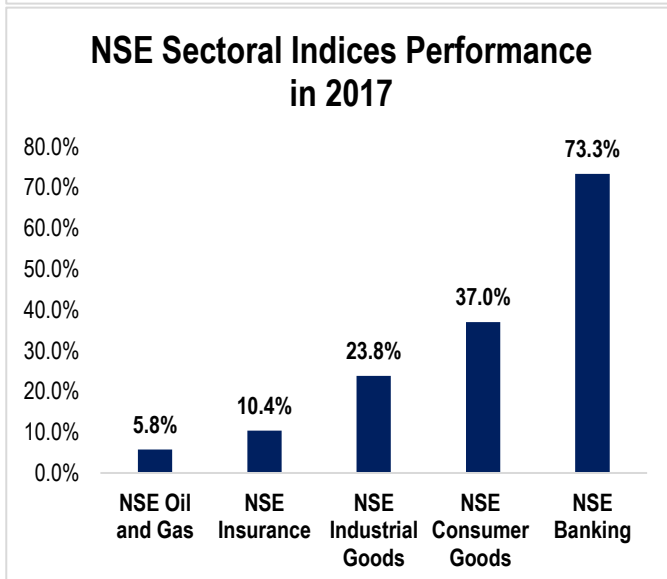
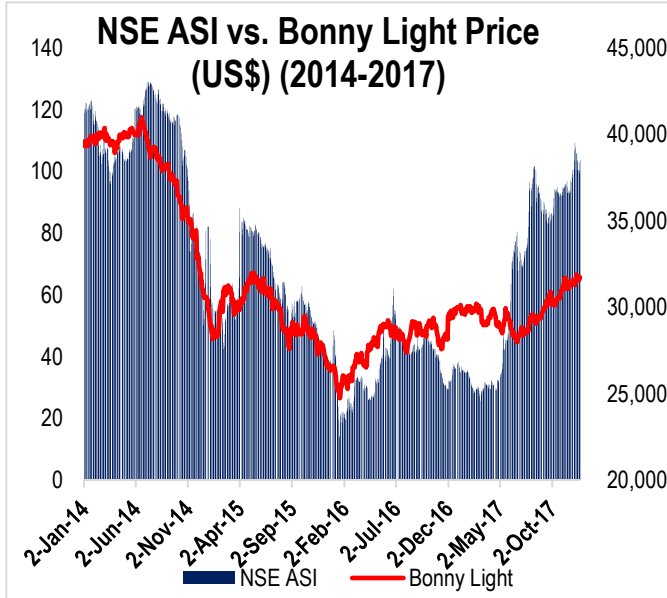
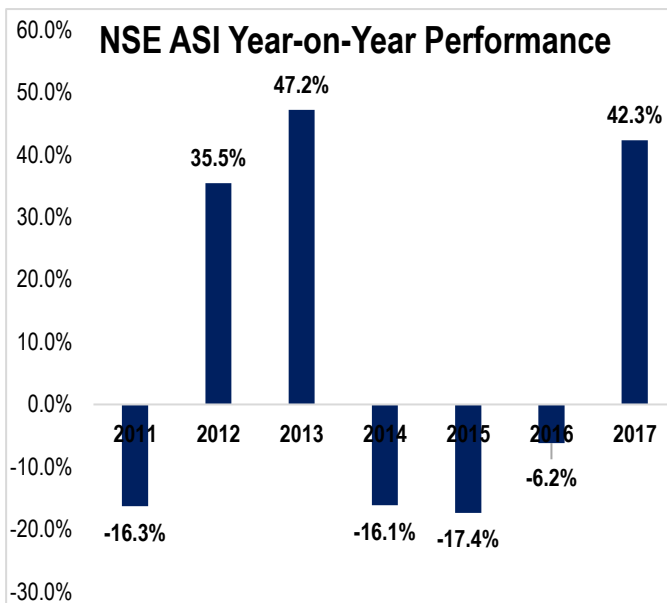
## Equity Market Ready for Another Rally in 2018

The outlook of the equity market remains positive in 2018 as FSDH Research expects the recovery witnessed in 2017 to continue. The Nigerian Stock Exchange All-Share Index (NSE ASI) closed the year 2017 at 38,243.19 points, representing an appreciation of 42.3%. This is the first year-on-year(y-o-y) appreciation since 2014. The NSE Banking and Consumer Goods Indices recorded the highest appreciation in 2017, growing by 73.3% and 37% respectively. The following stocks recorded the highest return in terms of capital appreciation in 2017: Dangote Sugar (227%), International Breweries (195%), Fidelity Bank (193%), Fidson Healthcare (189%) and Dangote Flour Mills (186%).

The quarterly analysis of the equity market in the last seven years shows that it appreciated consistently in Q2. We attribute the appreciation in Q2 to the release of the Full Year earnings and corporate actions during the period. The equity market dropped in Q1 every year in the last seven years, except in 2013. The depreciation in Q1 may reflect the delay in taking investment decisions at the beginning of the year.

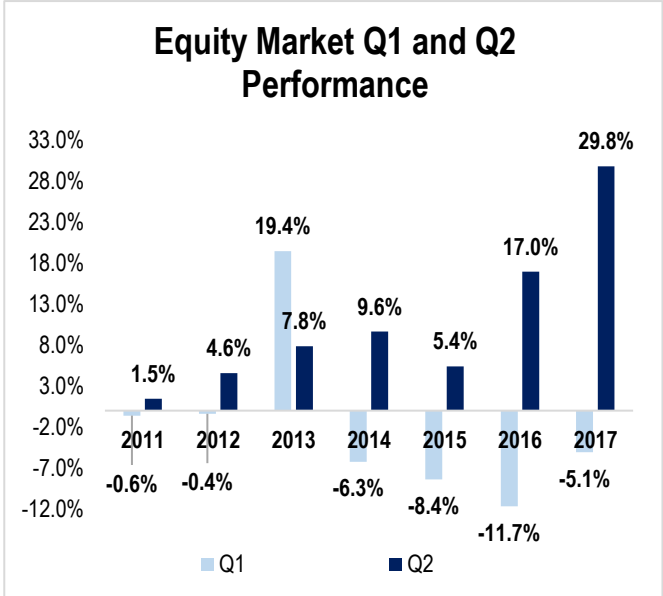
The following factors drove the performance of the equity market in 2017: the increase in the price of crude oil; introduction of the Investors' and Exporters' (I &E) Foreign Exchange window leading to stability in the foreign exchange market; improved corporate earnings and the drop in the yields on the Nigerian Treasury Bills (NTBs).

FSDH Research expects the factors that drove the equity market in 2017 to support the market rally in 2018. We observed a strong correlation between the historical movements in the NSE ASI and the crude oil price (Bonny Light). The current consensus is that the average price of crude oil will be marginally higher in 2018 than 2017. The inflation rate should decline further in 2018,



barring adjustments to the pump price of Premium Motor Spirit (PMS) and the electricity tariff. The drop in the yields on fixed income securities should also lead to portfolio realignment towards the equity market.

FSDH Research believes the expected drop in the equity market in Q1 2018 is an opportunity for strategic investment in the market ahead of the expected rally in Q2. The following sectors should perform well in 2018: Banking; Building Materials; Consumer Goods and Agriculture.



Sources: Thomson Reuters, Nigerian Stock Exchange and FSDH Research Analysis

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